

MEMORANDUM

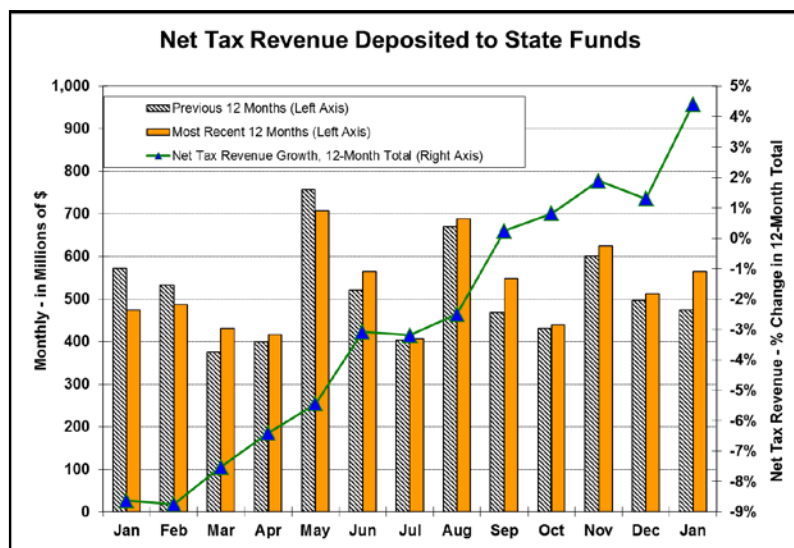
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: February 25, 2011

Twelve-month Total Net Tax Receipts Through January 31, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending January 2011 with comparisons to the previous twelve months. January 2010 to January 2011 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

At \$564.7 million, January 2011 net tax revenue was 19.2% above January 2010. While the growth rate for January was impressive, it just highlights the significant drop experienced last January. The net income level for January 2011 was below January 2009 and was just \$5.9 million (1.1%) above January 2008. At \$6.390 billion, annual revenue is now back at a level first reached in November 2007 and the total is currently 5.4% below the November 2008 net revenue peak.

Month of January Comparison

January net tax receipts totaled \$564.7 million, an increase of \$91.1 million (19.2%) compared to January 2010. Major taxes and their contribution to the month's change include:

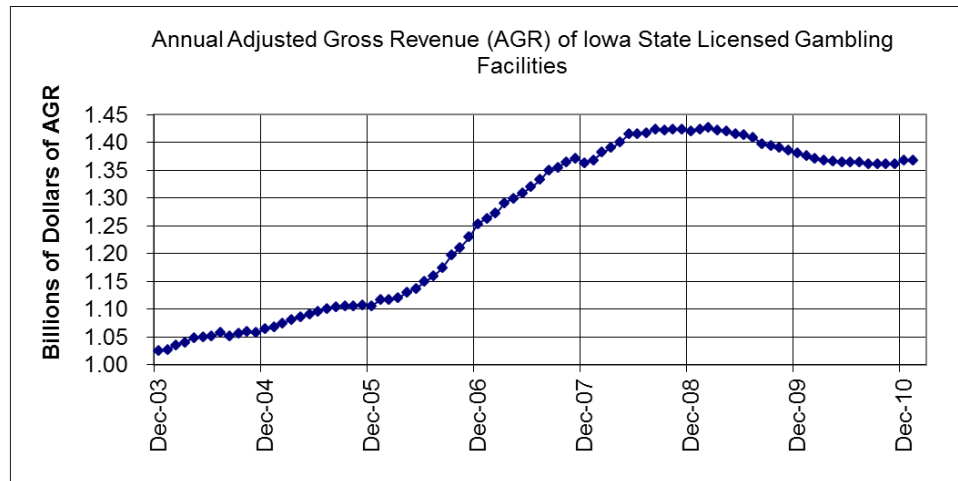
- Individual Income Tax (positive \$50.3 million, 18.2%) – Withholding tax deposits, estimate payments, and decreased individual income tax refunds all contributed to the significant January monthly increase.
- Sales/Use Tax (positive \$20.9 million, 21.2%)
 - Road Use Tax Fund use tax/fees for new registrations have now been positive in nine of the past ten months, with December and January both showing significant revenue growth.
 - General Fund sales/use tax receipts increased \$16.8 million with 8.8% growth in gross revenue bolstered by a \$5.2 million drop in school infrastructure refunds issued in January.
- Corporate Income Tax (positive \$10.5 million, 67.3%) – Gross corporate income tax receipts increased \$6.1 million while corporate refunds decreased \$4.4 million.
- Fuel Tax (positive \$1.6 million, 4.5%) – A \$2.6 million increase in gross fuel tax deposits was partially offset by a \$1.0 million increase in fuel tax refunds.
- Cigarette and Tobacco Taxes (positive \$4.3 million, 28.3%) – The large increase counters a similar decrease last month, indicating deposit timing issues as the probable cause.
- Gambling Tax (positive \$0.2 million, 0.9%)

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending January 2011, net revenue from all taxes deposited to State funds totaled \$6.390 billion, an increase of \$269.7 million (4.4%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$125.2 million, 4.7%) – Individual income tax revenue annual growth was negative as recently as this past August.
- Sales/Use Tax (positive \$101.0 million, 4.8%) – The annual rate of growth in net sales/use tax revenue has not been this high since October 2008 (6.0%).
- Corporate Income Tax (positive \$30.3 million, 15.0%) – Over the past 12 months, gross corporate tax receipts increased \$15.8 million, while corporate tax refunds decreased \$14.5 million.
- Fuel Tax (positive \$4.3 million, 1.0%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 3.2% while taxable diesel sales increased 6.0%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are still 5.1% lower than the March 2008 peak sales level.
- Gambling Tax (negative \$7.2 million, -2.5%) – According to Racing and Gaming Commission statistics, 9 of Iowa's 17 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending January 2010. The

combined AGR growth for the 17 facilities was negative 0.7% over the period and annual AGR growth has not been positive since May 2009.



- Cigarette and Tobacco Tax (positive \$5.6 million, 2.5%)
- Insurance Premium Tax (positive \$19.1 million, 24.2%) – The increase is likely the result of fewer redemptions of tax credits compared to last year.

Tax Spotlight – Inheritance Tax

The category of inheritance tax includes an inheritance tax, the qualified use inheritance tax, and the generation skipping transfer tax.

The inheritance tax is imposed under the authority of Iowa Code Chapter 450. Tax rates range from 5.0% to 15.0% depending on the amount of inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax the estate must exceed \$25,000 in value. Spouses were exempted fully from inheritance tax with the passage of SF 356 (Department of Revenue and Finance Tax Administration Act of 1991). Senate File 35 (Inheritance Tax Act of 1997) expanded the exemption to include all lineal ascendants and decedents.

The Iowa generation skipping transfer tax (Iowa Code Chapter 450A) is equal to the federal tax credit allowable for the State taxes paid. Currently the federal generation skipping transfer tax credit does not apply to estates so the State will not receive any revenue from the tax until the federal situation changes.

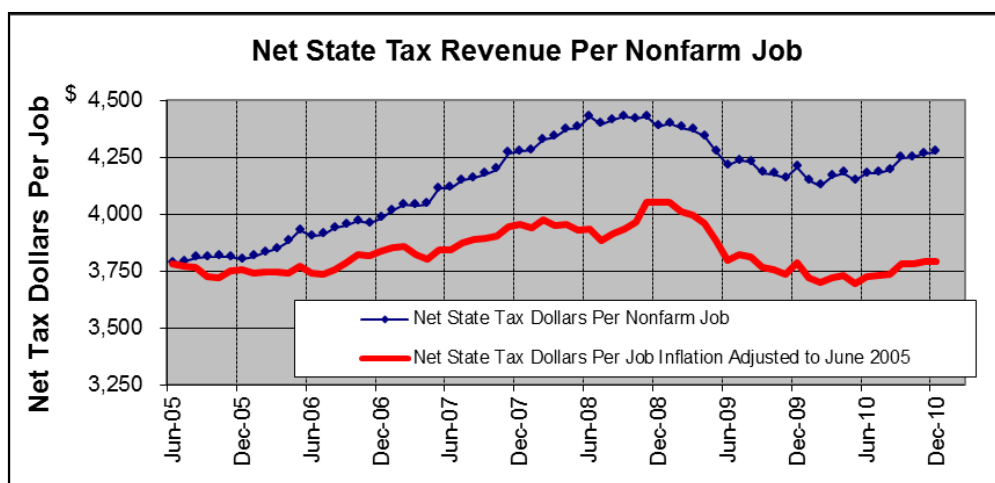
The qualified use inheritance tax is imposed under the authority of Iowa Code Chapter 450B. A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if they maintain the business for up to 10 years. However, if the farm or business is sold to a non-relative prior to the 10 years, the heir may be required to pay inheritance tax.

The Iowa estate tax (Iowa Code Chapter 451) is equal to the federal tax credit allowable for State estate taxes paid. However, the federal law does not currently allow for a federal estate tax credit so Iowa Code Chapter 451 is inoperative and Iowa does not collect estate tax.

In most instances, inheritance tax returns must be filed and tax paid by the last day of the ninth month following the death of the decedent. Tax revenue from the inheritance tax is deposited in the State General Fund.

Tax Revenue and Employment

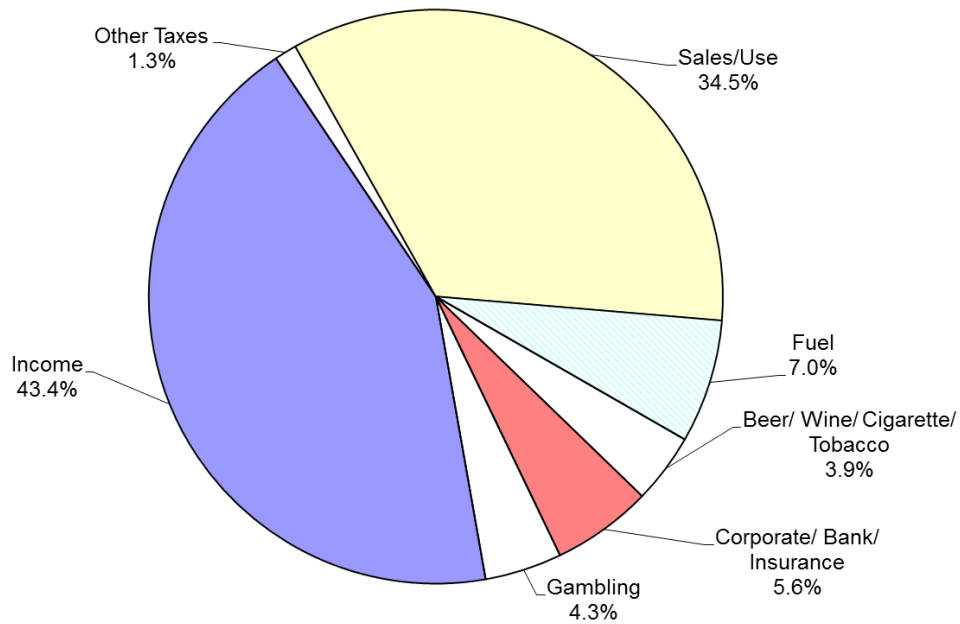
The average reading for Iowa nonfarm employment over the 12 months ending December 2010 is 1,474,100 and net State tax receipts over the same twelve months totaled \$6.299 billion, or \$4,273 per nonfarm job. This is \$488 (12.9%) higher than the per-job average for the twelve months ending July 2005. Over that same time period, inflation (CPI-U) increased 12.7%. Therefore, tax revenue per job has slightly exceeded the rate of inflation since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job and inflation-adjusted tax collections per job.



Net State Tax Revenue - Twelve Months Ending January 2011

Net Revenue = \$6.389 Billion

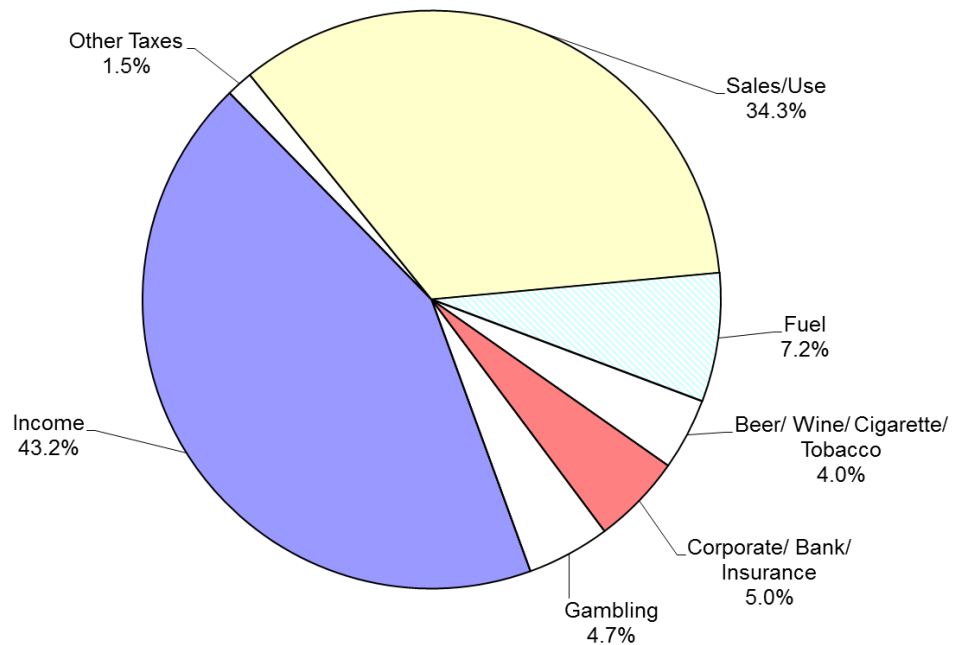
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending January 2010

Net Revenue = \$6.120 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of January 2010	Month of January 2011	January \$ Change	January % Change
Banking	\$ 28.0	\$ 30.2	\$ 2.2	7.9%	\$ 1.7	\$ 5.5	\$ 3.8	223.5%
Beer & Wine	21.1	21.3	0.2	0.9%	2.0	2.0	0.0	0.0%
Cigarette & Tobacco	224.8	230.4	5.6	2.5%	15.2	19.5	4.3	28.3%
Corporate Income	202.0	232.3	30.3	15.0%	15.6	26.1	10.5	67.3%
Fuel	440.5	444.8	4.3	1.0%	35.9	37.5	1.6	4.5%
Gambling	284.8	277.6	- 7.2	-2.5%	21.7	21.9	0.2	0.9%
Individual Income	2,646.1	2,771.3	125.2	4.7%	277.0	327.3	50.3	18.2%
Inheritance	68.3	62.1	- 6.2	-9.1%	4.9	3.8	- 1.1	-22.4%
Insurance	78.9	98.0	19.1	24.2%	0.1	0.3	0.2	200.0%
Other Taxes	10.1	4.9	- 5.2	-51.5%	- 0.1	- 0.3	- 0.2	--
Real Estate Transfer	13.3	13.7	0.4	3.0%	1.2	1.8	0.6	50.0%
Sales/Use	2,102.3	2,203.3	101.0	4.8%	98.4	119.3	20.9	21.2%
Total Net Taxes	\$ 6,120.2	\$ 6,389.9	\$ 269.7	4.4%	\$ 473.6	\$ 564.7	\$ 91.1	19.2%
Gross Tax & Refunds								
Gross Tax	\$ 7,411.7	\$ 7,598.3	\$ 186.6	2.5%	\$ 541.8	\$ 617.5	\$ 75.7	14.0%
Tax Refunds	\$ - 1,291.4	\$ - 1,208.4	\$ 83.0	-6.4%	\$ - 68.0	\$ - 52.8	\$ 15.2	-22.4%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,191.2	\$ 5,441.2	\$ 250.0	4.8%	\$ 397.2	\$ 502.3	\$ 105.1	26.5%
Road Use Tax Fund	\$ 692.4	\$ 716.1	\$ 23.7	3.4%	\$ 54.3	\$ 60.0	\$ 5.7	10.5%
Non-GF Gambling	\$ 217.2	\$ 214.1	\$ - 3.1	-1.4%	\$ 21.5	\$ 0.8	\$ - 20.7	-96.3%
Other State Funds	\$ 19.4	\$ 18.6	\$ - 0.8	-4.1%	\$ 0.8	\$ 1.6	\$ 0.8	100.0%
Local Option Taxes *	\$ 794.7	\$ 783.9	\$ - 10.8	-1.4%	\$ 61.0	\$ 55.5	\$ - 5.5	-9.0%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited in the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is now referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.